

VZCZCXRO0576  
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN  
DE RUEHTO #0666/01 1671549  
ZNR UUUUU ZZH  
R 161549Z JUN 09 ZDK  
FM AMEMBASSY MAPUTO  
TO RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC  
RUEHC/SECSTATE WASHDC 0399  
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUEHLO/AMEMBASSY LONDON 0424  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHEHNSC/NSC WASHDC  
RUCLRFA/USDA FAS WASHDC

UNCLAS SECTION 01 OF 02 MAPUTO 000666

SIPDIS

E.O. 12958: N/A  
TAGS: [EAID](#) [EINV](#) [PGOV](#) [EAGR](#) [PREL](#) [SENV](#) [SOCI](#) [ETRD](#) [ELTN](#)  
EWWT, MZ  
SUBJECT: MCC COMPACT IMPLEMENTATION TRIGGERS WATER AND LAND  
POLICY REFORMS

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¶1. SUMMARY: In 2007 the Millennium Challenge Corporation (MCC) signed a five-year, \$506.9 million Compact with the Government of Mozambique (GRM). Since the Compact entered into force in September 2008, the GRM has made measurable strides in improving the framework for water/sanitation administration, streamlining government processes and attracting the private sector to take on a greater role in this area. Also, the GRM has also made some progress in land tenure reform, again creating an environment for greater private sector participation. The GRM's concrete efforts to fulfill its Compact commitments evidence strong political will in these specific policy areas at a time when many observers have questioned the GRM's seriousness about economic reform. The MCC approach of linking policy reforms with project reforms is yielding results in Mozambique. END SUMMARY.

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Background  
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¶2. On July 13, 2007 the Millennium Challenge Corporation (MCC) signed a five-year, \$506.9 million Compact with the Government of the Republic of Mozambique (GRM) to improve rural and urban water and sanitation, roads, land administration and agriculture. The MCC program focuses on the economically lagging northern provinces of the country, home to half of the country's population. The Mozambique Compact includes key policy reforms and capacity building initiatives needed to advance development and economic growth in various sectors. These are covenants for disbursement of funds. The first year of Compact implementation began in September 2008 and since that time the GRM has made key policy reforms in two areas: the water and land sectors.

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Advances in Water/Sanitation Reform  
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¶3. The Compact is helping to advance the GRM's policies for the water sector, including funding to operationalize the legal, regulatory, and institutional framework for attracting private sector participation in building, operating, and maintaining water and sanitation systems in cities across the country. The GRM committed to a series of policy and institutional reforms that will ensure the sustainability of the water sector and maximize the benefits of the MCC investment. These reforms include:

--The establishment of an Urban Water and Sanitation Policy;

--The creation of a new autonomous institution, Administration of Water and Sanitation Infrastructure (AIAS) to serve as the asset manager and contracting party with private operators and provincial water boards, defined under the GOM's water policy for delegated management;

--The expansion of the regulatory authority of the Council for Water Regulation and Distribution (CRA);

--The inclusion of Operation and Maintenance Costs for Sanitation (to be included in the water supply billing); and

--The implementation of a Rural Water Supply Implementation Manual (MIPAR).

14. Private sector participation is the guiding principle of the GRM's policy in the water sector, and is crucial to improving infrastructure quality and service levels. This is also in the context of decentralization and de-concentration efforts by the GRM. With the assistance of MCC funding and the technical assistance of the World Bank, the GRM is now in a position to further develop and operationalize its existing sector strategies and policies.

15. This Water Policy was approved and enacted by the Council of Ministries in August 2007, shortly after Compact signing. With this policy, Mozambique has established the basic institutional framework for delegated management of water and sanitation services to the private sector. In April 2009, the Council of Ministers also approved two decrees that legally established AIAS, the autonomous institution that is the asset manager of the water and sanitation systems in mid-size cities across the country. It also passed the decree for the establishment of CPAS, the provincial water

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boards.

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Advances in Land Tenure  
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16. In the area of land tenure and administration, the GRM committed to engage in a process of regulatory and administrative reform to improve the efficiency, transparency, and security of the processes for transferring and acquiring land rights, in both rural and urban areas. The need for a more functional regulatory framework was reconfirmed in recent months by a number of land regulatory issues that were discussed in Council of Ministers meetings. These efforts also underline that there is a need for a overarching sector approach to tackle this challenge. Under the Compact with MCC, the Government commits to the establishment of a Land Policy Consultative Forum (LPCF) to steer and coordinate this reform. It would be comprised of relevant governmental ministries, civil society organizations and academic institutions, and conduct regular semi-annual meetings. Consultations on the LPCF have already taken place and a position paper has been prepared by the Ministry of Agriculture and submitted to the Council of Ministers for approval.

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Comment: Progress in Key Areas  
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17. The GRM has has taken concrete steps to fulfill its commitments and obligations for the policy reforms under the Compact in the areas of the water sector and land tenure. This show of strong political will at the highest level of the GRM is a positive sign, just at a time when many observers have questioned whether the Guebuza administration is really serious about improving Mozambique's business and investment environment. The MCC approach of linking policy reforms with project reforms is yielding results in Mozambique.

